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AGENDA ITEM 5 (Revised)

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. SUBJECT:** 2008 Basic Plan Benefit Design Proposal
- II. PROGRAM:** Health Benefits
- III. RECOMMENDATION:** Staff recommends the Board approve the following benefit design changes beginning January 1, 2008:

A. For Blue Shield of California (Blue Shield), Kaiser and Western Health Advantage (WHA) basic plans:

- 1. Increase office visit co-payments from \$10 to \$15 and waive co-payments for preventive care (*periodic health exams, obstetrics, well baby visits, allergy testing and treatment, immunizations, hearing evaluations, and pre/post-natal care*);
- 2. Increase emergency room co-payments from \$50 to \$75 (waived if admitted as an inpatient or for observation as an outpatient), while standardizing the urgent care co-payment to \$15 (currently: \$25 for Blue Shield, \$10 for Kaiser, and \$20 for WHA);
- 3. Change pharmacy co-payments from \$5/15/45 to \$5/**20**/45 for a 30-day supply at retail and from \$10/25/75 to \$10/**40/90** for a 90-day supply at mail order (Kaiser from \$5/15 to \$5/**20** for up to a 100-day supply); and,
- 4. Standardize out-of-pocket maximums to \$1,500 for individuals and \$3,000 for families, excluding pharmacy.

B. For PERS Choice basic plan:

- 1. Increase emergency room co-payments from \$50 to \$75 (waived if admitted as an inpatient or for observation as an outpatient), while maintaining a \$20 urgent care co-payment; and,
- 2. Change pharmacy co-payments from \$5/15/45 to \$5/**20**/45 for a 30-day supply at retail and from \$10/25/75 to \$10/**40/90** for a 90-day supply at mail order.

IV. BACKGROUND:

At the February 21, 2007 Health Benefits Committee (HBC) meeting, staff introduced a preliminary set of potential benefit design options for CalPERS HMO and PERS Choice **basic** plans developed by Milliman, Inc., designed to:

- Encourage members to seek care in the most clinically beneficial, cost-effective setting
- Reduce overall long-term premium increases without causing members to forgo needed care
- Provide incentives for members to make healthy lifestyle choices
- Maintain our risk pool
- Ensure competitiveness in health benefits marketplace
- Maintain consistency with applicable state and federal laws

On March 9, 2007, Milliman released its final report, *CalPERS Health Benefit Plan Design Analysis*. Staff distributed this report to the HBC on March 13, 2007. The report finalizes its recommendation with a set of benefit design changes for CalPERS HMO and PERS Choice **basic plans** for consideration in our 2008 rate negotiations.

Staff requested our health plans to review these preliminary proposals and assess the feasibility of implementing these changes. All plans affected by the proposals indicated it is possible to implement the proposed changes with only one exception – the HMO proposal of \$100 inpatient co-payment per day with a \$300 annual limit, combined with standardization of ambulatory surgery / outpatient surgery co-payments at \$15. Kaiser is unable to impose a \$300 annual limit on hospital stays. Thirty-six percent of CalPERS **basic plan** members are enrolled in Kaiser. To maintain a consistent benefit design for all members, staff removed this option from further consideration.

At the February 2007 HBC meeting, the Committee members requested more information about the:

- availability and accessibility of urgent care facilities,
- total program savings,
- premium impact of each benefit design change proposal,
- co-payment breakeven point for members to realize a premium savings, and
- average member use of each service.

In addition to the Committee's request, this agenda item also:

- describes the policy rationale supporting each recommendation, and
- recommends benefit design changes for Board adoption.

VII. ANALYSIS:

In CalPERS *2005 Survey of Subscribers Who Changed Health Plans*, the surveyed members indicated that low premiums are twice as important as low co-payment when choosing a health plan. This package of design changes allows CalPERS to maintain the long-term viability of its Health Benefits Program by moderating premium increases. CalPERS last approved co-payment changes in 2002. Since that time, premiums for the **basic** HMO plans have increased by 101 percent, and **basic** PPO plans by 78 percent.

Because the proposed changes apply to **basic plans** only, there is no impact on our Medicare members.

HMO Basic plans only: Office Visit Co-payment from \$10 to \$15 and No Preventive Care Co-payment

A. Policy Rationale

By waiving the office visit co-payment for preventive care, CalPERS is providing our members with a financial incentive to seek preventive services, including screening for chronic diseases. Annual exams and other types of preventive care play an important role in early detection and treatment of chronic diseases, which is the key to preventing diseases from advancing to more serious and costly states.

In 2005, 38 percent of our HMO members sought preventive care. Ideally, we should see close to 100 percent of our members seeking preventive care at least once a year through an annual exam. The American Heart Association's (AHA) 2007 report, *Heart Disease and Stroke Statistics*, found the death rate from coronary heart disease decreased by 33 percent between 1994 and 2004. AHA attributes this decrease to periodic health exams leading to early detection of risk factors and problems, as well as education that prompts positive behavior and lifestyle changes.

We asked our health plans and our consultant, Milliman, to conduct literature reviews and to provide their insights based on their experience and they unanimously believe that a \$5 co-payment increase for non-preventive care will not cause members to forgo needed care. Milliman found only one study that tied increased office visit co-payments to forgoing needed care, *Effects of Cost-Sharing Care Seeking and Health Status: Results from the Medical Outcomes Study*. The cost sharing arrangement in this study, however, required enrollees to pay 50 percent of total costs.

The proposal to combine waiving preventive care co-payments with an increase to the non-preventive care co-payment allows CalPERS to be a leader in the industry by encouraging early detection of illness through financial incentives.

B. Impact Analysis

The State of California and CalPERS' contracting agencies use a variety of methods to determine the employer contribution toward employee and retiree monthly premiums. The employers' method determines who benefits from premium savings:

- For employers that contribute a percent of the total premium, both employers and employees will benefit in relation to the percentage each contributes toward the premium.
- For employers that contribute a flat amount that does not cover the full premium, only the employee benefits.
- For employers that contribute a flat amount that covers the full premium, only the employer benefits.

Currently, 54 percent of the State active members receive a contribution equal to 80 percent of the weighted average premium, for the four most popular plans. The following table is an example of the program and member impacts if all employers provided their employees with an 80 percent contribution during 2007, and office visit co-payments increased from \$10 to \$15:

Impact Analysis for: \$15 Office Visit Co-payment

	% Premium Impact	2007 Total Program Savings*	2007 Annual Family Premium Savings (State 80/80)**	Service Breakeven Point	Average # Services per Member
Blue Shield	-1.39%	\$20,553,048	\$42.52	8.50	5.12
Kaiser	-1.19%	\$17,578,794	\$23.62	4.72	
WHA	-1.70%	\$1,411,408	\$30.64	6.13	
Employer Savings (80/80)		\$31,634,600			

* Based on CalPERS 2007 Expenditures Basic Report.

** Total employee savings if all members received State 80/80 employer contribution rate; based on family premium.

The \$5 co-payment increase would have saved approximately \$24 to \$43 in annual family premium in 2007, depending on the plan. Families would have realized savings through reduced premiums until their office visits exceeded eight for Blue Shield, four for Kaiser and six for WHA (the breakeven point).

This proposal also eliminates the co-payment for preventive care. This change reduces the premium impact (e.g., Blue Shield's premium impact changes from 1.39 percent to 1.10 percent). The following table is an example of the program and member impacts if all employers provided their employees with an 80 percent contribution during 2007:

Impact Analysis for:
\$15 Office Visit Co-payment and No Co-payment for Preventive Care

	% Premium Impact	2007 Total Program Savings*	2007 Annual Family Premium Savings (State 80/80)**	Service Breakeven Point	Average # Non- Preventive Services per Member
Blue Shield	-1.10%	\$16,265,002	\$33.65	6.73	4.46
Kaiser	-0.71%	\$10,488,188	\$14.09	2.82	
WHA	-1.12%	\$929,869	\$20.19	4.04	
Employer Savings (80/80)		\$22,146,447			

* Based on CalPERS 2007 Expenditures Basic Report.

** Total employee savings if all members received State 80/80 employer contribution rate; based on family premium.

The \$5 co-payment increase for non-preventive care combined with free preventive care would have saved approximately \$14 to \$34 in annual family premium in 2007, depending on the plan. Providing members with free preventive care reduces the service breakeven point to six non-preventive visits for Blue Shield, two for Kaiser and four for WHA. Under this proposal, however, the member saves \$10 each time he or she visits the doctor for preventive care.

HMO Basic plans only: Standardization of out-of-pocket maximums to \$1,500 for individuals and \$3,000 for families, excluding pharmacy

A. Policy Rationale

Currently, both Kaiser and WHA have this out-of-pocket maximum in place; however, Blue Shield does not. This change would standardize the out-of-pocket maximum across all plans and provide our Blue Shield members with the same level of financial protection our other HMO members experience.

B. Impact Analysis

There would be no impact on premium for adding an out-of-pocket maximum to the Blue Shield HMO **basic plan**.

HMO Basic plans and PERS Choice Basic plan only: Emergency Room Co-payment from \$50 to \$75 (waived if admitted)

HMO basic plans only: Standardize Urgent Care Co-payment at \$15 (currently: \$25 for Blue Shield, \$10 for Kaiser, and \$20 for WHA)

PERS Choice Basic plan only: Maintain Urgent Care Co-payment of \$20

A. Policy Rationale

Avoidable emergency room use significantly increases medical costs and decreases accessibility to emergency services in life-threatening situations. In 2005, nine percent of our **basic plan** members visited the emergency room without being admitted. According to *CalPERS Health Plan Member Satisfaction Survey*, our members who visited the emergency room reported that between 48 to 59 percent of their visits (depending on the plan) were for non life-threatening services.

The California HealthCare Foundation published the study *Overuse of Emergency Department Among Insured Californians* in October 2006, which found three key drivers affecting avoidable emergency room use: advice, alternatives, and attitudes. The report suggests educating patients about proper emergency room use and increasing co-payments to encourage clinically beneficial, cost-effective emergency room use.

Staff's proposed benefit design changes, when combined with a communication strategy and our plans' current services, will address the three avoidable emergency room use drivers as follows:

- **Lack of Advice:** Blue Shield, Kaiser and PERS Choice have a 24-hour nurse advice line, while WHA has provider group advice services.
- **Lack of Alternative:** Urgent care centers offer more timely and effective services to patients with non-emergency conditions and reduce demand for emergency room services, which increases the timely access to emergency room services for patients with life-threatening conditions. (See discussion on urgent care availability and accessibility below.)
- **Positive Attitude Towards Emergency Services:** Patients have confidence in emergency room staff and care. The plans will promote member awareness on the availability and advantages of using urgent care services in non-emergency situations. The proposed emergency room / urgent care co-payments structure will further encourage this change of attitude.

Constituent groups and Committee members expressed concern that this proposal may disproportionately impact elderly members. According to our data, members between the ages of 15 and 19 make up the largest proportion of emergency room users (10.3 percent of all emergency room users). As mentioned previously, this proposal has no impact on Medicare members.

The proposal eliminates additional costs for all **basic plan** members who become ill outside regular doctor office hours as the urgent care co-payment is consistent with the office visit co-payment.

B. Impact Analysis

The following table is an example of the program and member impacts if all employers provided their employees with an 80 percent contribution during 2007:

Impact Analysis for:
\$75 Emergency Room (waived if admitted) &
\$15 Urgent Care Co-payment for HMO (\$20 PERS Choice)

	% Premium Impact	2007 Total Program Savings*	2007 Annual Family Premium Savings (State 80/80)**
Blue Shield	-0.28%	\$4,140,182	\$8.56
Kaiser	-0.13%	\$1,920,372	\$2.58
WHA	-0.42%	\$348,701	\$7.57
PERS Choice	-0.10%	\$917,668	\$3.51
Employer Savings (80/80)		\$5,861,539	

* Based on CalPERS 2007 Expenditures Basic Report.

** Total employee savings if all members received State 80/80 employer contribution rate; based on family premium.

The annual family premium savings from the proposed emergency room co-payment change would have been approximately \$9 for Blue Shield, \$3 for Kaiser, \$8 for WHA, and \$4 for PERS Choice in 2007. Families would have realized savings through reduced premiums if they did not visit the emergency room. Only members who visit the emergency room without being admitted to the hospital incur an emergency room co-payment. In 2005, nine percent of our members visited the emergency room without being admitted to the hospital. Thus, ninety-one percent of our members would have realized savings had CalPERS had this change in place.

C. Urgent Care Availability and Accessibility

While availability of urgent care facilities varies by plan, over 91 percent of our members affected by this proposal have access to an urgent care facility within 30 miles of their residence. Attached are plan-specific:

- Lists of urgent care facilities, and

- Maps indicating the geographical location of urgent care facilities

The plan-specific percent of members with access to at least one urgent care facility within 30-miles of his or her residence are:

- Blue Shield: 87.1%
- Kaiser: 96.5%
- WHA: 96.7%
- Blue Cross: 89.0%

Our plans all report that they are unable to charge a different emergency room co-payment in counties where they do not offer urgent care. In addition, our plans report that the main reason they do not offer urgent care in all counties is that some counties have no urgent care facilities. The plans will continue to evaluate the availability of urgent care facilities and add to their current network, when appropriate.

Blue Shield, WHA and PERS Choice Basic plans only: Pharmacy Co-payment from \$5/15/45 to \$5/20/45 for a 30-day supply at Retail & from \$10/25/75 to \$10/40/90 for a 90-day supply at Mail Order
Kaiser HMO Basic plan: from \$5/15 to \$5/20 for up to a 100-day supply

A. Policy Rationale

There are two components to this proposal:

- Increase the brand name retail co-payment by \$5 to create a greater incentive to try generics.
- Change the relationship between retail and mail order for brand and non-formulary drugs, so the 90-day mail order co-payment is twice that of the 30-day retail supply, which is consistent with our current generic price ratio of 1:2 between retail and mail order (\$5 at retail for a 30-day supply / \$10 for mail order for up to a 90-day supply).

These changes maintain the financial incentive to members to obtain maintenance pharmaceuticals through mail order, increase the financial incentive to use generics, and provide members who use brand and non-formulary drugs further incentive to try generics.

Based on the experience of Medco, our PPO pharmacy benefit manager, increasing the differential between generics and brand drives member behavior toward increased use of generics. As Medco enrollees order maintenance medications, Medco e-mails them with information on their drug use and low cost generic alternatives for brand and formulary drugs. The combination of this educational approach and greater financial incentives will have a favorable impact on the utilization rate of generics.

Medco also reports that generics are now available in every major therapeutic category, and several major brands will have their patents expire in the coming months. Of CalPERS **basic plan** members who had claims in the last year, 43 percent had at least one claim for a drug for which there is no generic equivalent (includes all **basic plan** members). Some of these members may be able to take a generic drug within the same therapeutic class. The Generic Pharmaceutical Association reports that 76 percent of all drugs have a generic equivalent. Staff recommends keeping the partial waiver for non-preferred brand drugs. To obtain a partial co-payment waiver, a physician must document the necessity for the non-preferred product in place of the preferred product or the available generic alternative.

B. Impact Analysis

The following table is an example of the program and member impacts if all employers provided their employees with an 80 percent contribution during 2007:

Impact Analysis for: \$5/**20**/45 Retail & \$10/**40**/**90** Mail Order*

	Service	% Premium Impact	2007 Total Program Savings**	2007 Annual Family Premium Savings (State 80/80)***	Service Breakeven Point	Average # Services per Member
Blue Shield	Retail Brand:	-0.92%	\$13,603,456	\$28.14	5.63	2.65
	Mail Order Brand & Non-Preferred:	-0.15%	\$2,217,955	\$4.59	0.31	0.30
Kaiser	Retail Brand:	-0.44%	\$6,499,722	\$8.73	1.75	1.08
WHA	Retail Brand:	-0.65%	\$539,656	\$11.72	2.34	NA
	Mail Order Brand & Non-Preferred:	-0.47%	\$390,213	\$8.47	0.56	NA
PERS Choice	Retail Brand:	-0.16%	\$1,468,269	\$5.62	1.12	2.67
	Mail Order Brand & Non-Preferred:	-0.69%	\$6,331,909	\$24.24	1.62	1.66
Employer Savings (80/80)			\$24,840,944			

* Maintain \$30 at retail & \$45 at mail order for plan -evaluated medically necessary non-preferred brand drugs.

** Based on CalPERS 2007 Expenditures Basic Report.

*** Total employee savings if all members received State 80/80 employer contribution rate; based on family premium.

The annual family premium savings from the proposed pharmacy co-payment changes would have been \$33 for Blue Shield, \$9 for Kaiser, \$20 for WHA and \$30 for PERS Choice. Families would realize an overall savings until their service level reaches their breakeven point. Family benefits vary by plan. WHA data is currently unavailable, however, WHA's member experience is likely similar to Blue Shield's member experience.

VIII. STAFF RECOMMENDATION:

Staff recommends the Board approve the following benefit design changes, effective January 1, 2008:

1. Increase office visit co-payments from \$10 to \$15 and waive co-payments for preventive care (periodic health exams, obstetrics, well baby visits, allergy testing and treatment, immunizations, hearing evaluations, and pre/post-natal care);
2. Increase emergency room co-payments from \$50 to \$75 (waived if admitted as an inpatient or for observation as an outpatient), while standardizing the urgent care co-payment to \$15;
3. Change pharmacy co-payments from \$5/15/45 to \$5/**20**/45 for a 30-day supply at retail and from \$10/25/75 to \$10/**40/90** for a 90-day supply at mail order (Kaiser \$5/20 for up to a 100-day supply); and,
4. Standardize out-of-pocket maximums to \$1,500 for individuals and \$3,000 for families, excluding pharmacy.

For PERS Choice **basic plan**:

1. Increase emergency room co-payments from \$50 to \$75 (waived if admitted as an inpatient or for observation as an outpatient), while maintaining a \$20 urgent care co-payment; and,
2. Change pharmacy co-payments from \$5/15/45 to \$5/**20**/45 for a 30-day supply at retail and from \$10/25/75 to \$10/**40/90** for a 90-day supply at mail order.

VIII. STRATEGIC PLAN:

This agenda item supports the Health Benefits Branch Three-Year Business Plan Goal to "develop and administer quality, sustainable health benefit programs that are responsive to and valued by members and employers."

IX. RESULTS/COSTS:

The "Analysis" section of this agenda item provides premium impact information. Total premium impact of all benefit design changes would have been \$66,061,163.

The following table summarizes the total premium savings of the 2008 staff recommended benefit design changes by plan had the changes been in place for 2007:

Basic Plan	2007 Annual Benefit Design Options Savings			
	Office Visit	Emergency Room and Urgent Care	Pharmacy	Total Savings
Blue Shield	\$16,265,002	\$4,140,182	\$15,821,411	\$36,226,596
Kaiser	\$10,488,188	\$1,920,372	\$6,499,722	\$18,908,283
WHA	\$929,869	\$348,701	\$929,869	\$2,208,438
PERS Choice	No Change	\$917,668	\$7,800,178	\$8,717,846
Total Savings	\$27,683,059	\$7,326,924	\$31,051,180	\$66,061,163

The table below summarizes annual premium savings for CalPERS family plan members if all the 2008 staff recommended benefit design changes, by plan, had been in place for 2007:

2007 Annual Total Family Premium Savings: All Benefit Design Changes Applied				
Basic Plan	Blue Shield	Kaiser	WHA	PERS Choice
Total Family Premium Savings	\$74.94	\$25.40	\$47.95	\$33.37

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Attachment